

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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Argentina

Sugar Annual

2013

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Report Highlights:

Argentine sugar production for 2013/14 is projected to remain practically unchanged at 2.35 million tons (raw value). Exports are forecast at 500,000 tons, almost double of the previous crop. The province of Tucuman, the largest sugar producer, has recently passed a Law to organize the sugar sector as large stocks are putting strong downward pressure on prices and farmers' returns.

Commodities:

Sugar, Centrifugal

Sugar Cane for Centrifugal

Production:

Argentine sugar production for crop year 2013/14 is forecast at 2.35 million tons (raw value), marginally higher than the previous year. It is the second consecutive year that plantations suffered from a dry summer, but the condition of the cane this year is better than last year as it rained more in spring and autumn. In Tucuman, rains have been irregular and temperatures very high, while cane in the northern provinces of Salta and Jujuy, which is irrigated, is in better condition. The final output will be determined by how cold the next winter is, since in the last five crop seasons production was negatively affected by frost damage.

The final number for sugar production in crop year 2012/13 was 2.3 million tons, higher than earlier anticipated as some cane plantations affected by drought yielded more than earlier expectations. Post's production volume is higher than official data as it includes some undeclared production. The local sugar industry had a difficult 12/13 marketing year given the size of the large production and smaller exports than anticipated, creating huge stocks which put severe downward pressure on domestic prices, hurting the economy of the whole sector. The current price of sugar in the domestic market at the mill is roughly \$2100 pesos per ton, down from the average price in CY 2012 and 2011 which were \$2900 pesos and \$3270 pesos respectively. High inflation rates, averaging 25 percent in 2011 and 2012 and estimated at 25-30 percent this year are causing production costs to increase significantly. With falling prices and higher costs most small and medium cane producers are suffering negative returns.

In early 2010, Argentina put in place a biofuels mandate which orders gasoline to be mixed with 5 percent ethanol. Since its implementation it has only reached a 2-3 percent mix as production of ethanol is still not sufficient. The first and exclusive suppliers of the mandate were a few sugar mills. At that moment, most mills invested little in the expansion of their capacity to produce and storage ethanol as high international sugar prices made them focus on the production of sugar. In 2012 and 2013 the first grain bioethanol plants came in line and occupied most of the mandate quota which was unused. The local sugar industry has capacity to expand somewhat the ethanol production, but it will have to obtain additional quota from the government. Most contacts indicate this should not be a problem, especially with the increasing need of fuel which the country has. Therefore, we can expect a slight increase in ethanol production from sugar mills.

Roughly 500,000 tons of refined sugar is necessary to supply the local retail market. The Secretary of Internal Commerce has implemented a price segmentation scheme to supply the market which local mills have to comply with. Roughly 25 percent of the market has to be supplied with low-priced "popular" sugar; 25 percent with medium-priced "selective" sugar and the balance can be premium sugar sold at higher prices. It is hard to find product at the low, popular price and most sugar sells in the retail channel for \$6-8 pesos per kilo.

Consumption:

Domestic sugar consumption for 2013/14 is forecast at 1.84 million tons (raw value), practically unchanged from the previous year. The food (confectionary, dairy, marmalades, and canned fruits) and beverage industries are

the largest consumers of sugar. While overall consumption is expected to grow somewhat, the competition from high fructose corn syrup (HFCS) in the industrial channel and low-calories sweeteners in the retail market make sugar consumption grow slower. One of Argentina's large food companies has initiated the construction of a HFCS plant which is expected to commence production in 2014 and will supply the local and export markets. Argentine per capita consumption of sugar for 2013 is estimated at 45 kilos.

Trade:

Argentina is forecast to export 500,000 tons of sugar (raw value) in 2013/14. There are a lot of doubts about this level because it will depend on how effective the Sugar Promotion Institute scheme works (see Policy). Most contacts agree that Argentina should ideally export 800,000 tons to totally "clean" its sugar surplus stock. However, some traders are quite skeptical that this high level can be reached, given export controls by the government which limits financial and commercial opportunities, as well as logistical limitations. In 2009/10 Argentina exported 780,000 tons of sugar.

Chile is expected to be the largest market, taking approximately 150,000 tons between raw and refined sugar. The balance would be basically exported to the world market. There is a sugar mill in the province of Salta which exports annually approximately 25,000 tons of organic sugar, primarily to the U.S. and the E.U.

The U.S. granted Argentina 46,154 tons of sugar exports under the 2012/13 Tariff Rate Sugar Quota. However, contacts indicate that because of low prices under the quota (exporters indicate prices to be US\$20-30 per ton lower than the world market), shipments are very slow and delayed. In fact rumors indicate that if current market conditions persist, total shipments will be way below the total allocation.

Stocks:

Ending stock for 2013/14 are projected at 456,000 tons (raw value), practically unchanged from 2012/13. However, the level of stocks will be directly influenced by the amount of sugar that the newly created Tucuman Sugar Institute is able to manage to export. Current high sugar stocks are primarily in the hands of mills and a few large cane producers in Tucuman.

Policy:

Due to the unresolved problem in 2012/13 of sugar high stocks, low exports and declining prices, the Governor of the province of Tucuman, which produces over 60 percent of the country's total and has over 8,000 small and medium cane producers, passed a Law to organize the sugar market in the province. The law created the Tucuman Sugar and Alcohol Promotion Institute, run by a board with two representatives each from the provincial government, the mills and the farmers. This board will estimate production, stocks and domestic consumption and will have mills hold a share of their sugar which will have to be exported. By doing this they believe they will rapidly balance the market and make domestic sugar prices rebound from their current low level. While many have confidence that this scheme will work, others have doubts primarily due to the different situation of the 15 mills operating in the province. There are some with financial problems, only a few produce bioethanol (which would be part of the scheme and it is currently more profitable than exporting sugar); some have large stocks of sugar, etc. This is the first official regulation in more than 20 years, and it only applies to the province of Tucuman (other producing provinces are not part of it). Most players hope that this mechanism works because if not, local prices could fall even further, putting the sector in a very weak situation.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Argentina	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Jun 2011		Market Year Begin: Jun 2012		Market Year Begin: Jun 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	84	81	255	232		446
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	2,150	2,150	2,090	2,300		2,350

Total Sugar Production	2,150	2,150	2,090	2,300		2,350
Raw Imports	0	0	0	0		0
Refined Imp.(Raw Val)	3	5	2	0		0
Total Imports	3	5	2	0		0
Total Supply	2,237	2,236	2,347	2,532		2,796
Raw Exports	97	96	110	96		300
Refined Exp.(Raw Val)	75	98	110	160		200
Total Exports	172	194	220	256		500
Human Dom. Consumption	1,800	1,800	1,820	1,820		1,830
Other Disappearance	10	10	10	10		10
Total Use	1,810	1,810	1,830	1,830		1,840
Ending Stocks	255	232	297	446		456
Total Distribution	2,237	2,236	2,347	2,532		2,796
1000 MT						

Sugar Cane for Centrifugal Argentina	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Jun 2011		Market Year Begin: Jun 2012		Market Year Begin: Jun 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	350	350	380	380		380
Area Harvested	345	345	360	360		370
Production	21,400	21,400	21,500	23,000		23,700
Total Supply	21,400	21,400	21,500	23,000		23,700
Utilization for Sugar	19,800	19,800	19,500	20,700		21,000
Utilizatn for Alcohol	1,600	1,600	2,000	2,300		2,700
Total Utilization	21,400	21,400	21,500	23,000		23,700
1000 HA, 1000 MT						